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Christof Dejung [a]

[a] Department of History and Sociology, University of Konstanz, Germany

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Worldwide ties: The role of family business in global trade in the nineteenth and twentieth centuries

Christof Dejung*

Department of History and Sociology, University of Konstanz, Germany

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This paper shows, through the example of the Swiss merchant house Volkart Bros, that many of the world's largest trading firms remained family businesses until well into the late twentieth century, thus challenging the Chandlerian dichotomy of small or medium-sized enterprises with family involvement on the one hand and large managerial firms on the other. This was a consequence of the specific features of their business: trading firms, unlike manufacturing companies, could finance their transactions with short-term credits and did not need to raise capital on the stock market. The paper will describe how far family ownership was able to reduce transaction costs at both the intra- and inter-organisational level. In addition, it will discuss what the concept of the corporate family means for the alleged distinctness of the economic and private spheres, which has been dominant in economic theory up to now.

Keywords: global trade; corporate culture; family business; transaction costs; trust, principal agent problem; commodity trade; globalisation; Switzerland; India

'The firm of Volkart Bros can be characterised as a family business', reads the first sentence of the 75th anniversary publication of the Swiss merchant house of 1926.[1] This is no exceptional case. Allusions to the fact of Volkart being a family firm are prevalent in the records of the company, which had become one of the most important merchant houses in South Asia after the late nineteenth century. References to the family not only mention the fact that, in terms of ownership structure, Volkart remained a family owned and controlled company for the whole period of its existence.[2] As this paper will argue, they also touched basic aspects of the firm's business practices and corporate culture and allow the clear-cut separation of economic and private spheres to be questioned.

The fact that a firm such as Volkart remained a family business throughout its existence certainly challenges the Chandlerian dichotomy between preindustrial, and small or medium-sized enterprises with family involvement on the one hand, and large managerial firms characteristic of the modern and globalised economy after the late nineteenth century on the other.[3] This assumption has been proven untenable for manufacturing firms;[4] it is certainly incorrect for the trading sector, in which a significant part of many major firms remains family owned and controlled even today. This is due to

*Email: christof.dejung@uni-konstanz.de

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the specific features of their business. Trading firms had little need of long-term investment. Unlike manufacturing companies, they could finance their transactions through short-term credits and by mortgaging their stock, and hence did not need to raise capital on the stock market.

Yet, family ownership went beyond the question of finance. Many scholars have explained the relatively large proportion of the trading sector taken up by family businesses through a new institutional economic approach. Accordingly, family ownership was able to reduce transaction costs at both the intra- and inter-organisational level. As Mark Casson has argued, family firms possessed a corporate structure particularly well suited to fields of business where information was sketchy, markets were volatile and property rights were not always guaranteed.[5] The advantage of family firms lay in the fact that they were associated with a particular group of people, which ensured continuity in trading relationships.[6] This was of particular importance in long-distance trade. As Geoffrey Jones has pointed out, the crucial asset of trading companies were soft skills such as knowledge about the reliability of business partners, local business practices and the products they traded in. This knowledge and their ability to establish networks of trust with local intermediaries could reduce transaction costs and allow trading companies to act as commercial bridges by bringing buyers and sellers on different continents together.[7] Family ownership, in this line of business, had the advantage of providing a guarantee of continuity. To be sure, several trading firms changed their corporate form into that of a stock company in the first decades of the twentieth century; yet shares mostly remained in the possession of the owners' family and/or the top management, and were never traded in public. This makes sense, as commodity trading was a very volatile field of business that required the strictest confidentiality. A shareholder who wanted to reassess his portfolio strategy in times of crises would only have brought unwanted disturbances into the company. The owners' families in contrast had a much larger time frame, They were more prepared to invest their capital in the long term, since they were emotionally connected to the venerable tradition of a company that they had inherited from their forefathers and intended to pass on to their progeny.[8]

However, an examination of family business can go further than the mere analysis of transaction costs. It is precisely the interplay between the family and the capitalist economy that makes family businesses such an interesting research topic. Scholars such as Renato Tagiuri and John Davis have described family firms as a structural linkage between two different social systems, namely the family and business operations, each of which is characterised by a distinct intrinsic logic.[9] By doing this, they follow an argument, prevalent in the social sciences and economics, according to which the private sphere of the family is the counterpart of the market since it is a social unit characterised by traits such as tradition, altruism and solidarity. Max Weber's 'iron cage' of the capitalist market, on the other hand, is conceived as a social system distinguished by rational calculation and a preference for short-term financial gains.[10] Yet, an absolute differentiation of these two social spheres seems ill-suited to assessing the mutual relations between firm and family and the co-evolution of both.

A major problem of such an approach lay in the fact that economic actors do not necessarily organise their everyday actions according to the demands of particular social subsystems. Generally, they think and act in ways that crosscut the boundaries between these subsystems.[11] In her examination of German family businesses, Christina Lubinski found that firm owners hardly ever distinguished between economic and private rationality in their decision-making. Furthermore, their decisions were not always marked by price rationalisation alone, but often shaped by a bounded rationality established on the basis of

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ideals and former decisions.[12] For this reason, Sylvia Junko Yanagisako has proposed in her study of Italian family businesses 'a cultural theory of economic action that treats all social action – including capital accumulation, firm expansion, and diversification – as constituted by both deliberate, rational calculation and by sentiments and desires: in other words, as cultural practices.'[13] Therefore, it will be argued in the following that it was precisely the close interrelationship of business and family and the subsequent social embeddedness[14] of transactions that made family firms so successful in such a volatile business as global trade. Both subcontractors and clients knew that the firm would not violate long-term business connections for short-term financial profits. And the identity of principals and owners' family strengthened the employees' association with the company, minimising the risk of opportunistic behaviour.

Furthermore, such a cultural historical approach allows the well-defined distinction between Western capitalism, characterised by rational economic thinking, and non-Western forms of economies, supposedly primarily shaped by traditions and family ties to be challenged. It was none other than Max Weber in his *Protestant Ethic* who introduced this argument, which has influenced social and economic studies for several decades.[15] In business history, this has led to the claim that family businesses are of particular importance in non-Western countries such as China.[16] Although it might very well be the case that, in relative terms, the family is more important in non-Western economies, there is reason to reject such an absolute distinction between Western and non-Western economies on the basis of an ostensibly different significance of family businesses. Whereas business historians, as mentioned above, have presented numerous examples of successful family businesses in modern Western economies, scholars from the field of extra-European history have argued that Asian and Arabic entrepreneurs possessed a business culture characterised by an economic rationality quite similar to that prevalent in Europe.[17] As this paper will argue, it was precisely this similarity of business principles and particularly the fact that trading companies were family-owned throughout the world that allowed Western firms to build up networks with merchant houses from non-Western countries and the Southern hemisphere.[18]

The article is organised into four sections. In the first section, I will describe how Volkart became one of the biggest merchant houses in South Asia within two decades of its founding. Although the firm remained family owned, the ever-increasing complexity of transactions resulted in an increased importance of the management. As a consequence, the firm developed into a hybrid form of family business and managerial coordination. In the second section, it will be argued that Volkart's status as a family firm was not confined to the question of ownership. It also assured clients and purchasers of the reliability of the firm's services and stabilised business connections with other trading firms all over the world, which for the most part were also family owned. The third section will show how Volkart's principals aimed to reduce the opportunistic behaviour of their staff by establishing a strong corporate culture based on mutual trust. The discourse of the corporate family played an important role in the self-portrayal and was used by both principals and agents to describe their relationship with the firm. The fourth and final section will describe how the form of partnership was not suited to controlling the ever-increasing complexity of the concern after the 1960s, which is why it was converted into a number of interrelated stock companies. Their shares, however, were not traded in public markets but remained in possession of the owners' family until the withdrawal of the firm from the trading business at the end of the twentieth century.

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Family ownership and the increase of managerial influence

The merchant house of Volkart Bros was founded by the brothers Salomon and Johann Georg Volkart in 1851, simultaneously in both Winterthur, a small town in Switzerland near Zurich, and Bombay. Volkart acted as an exporter of raw materials from India to the European continent, Great Britain as well as to East Asia, and it was an importer of Western manufactured goods to the Indian subcontinent. In the first years following its founding, the firm was virtually a family affair. In the Winterthur head office, Salomon Volkart supervised the exports of European consumption goods to India and handled the sales of Indian raw materials to European manufacturers. He was assisted by his wife Emma, who took care of the paperwork. Johann Georg Volkart saw to the distribution of European imports in the Bombay bazaar and attended to the export orders for raw materials that were sent on consignment to Europe. Even though the firm had two employees in Bombay from the start, the responsibility for the operations lay completely with the two founders who had chosen the legal form of a partnership for their firm, which implied that they were liable with their private assets for the company's potential losses.[19] The firm of Volkart Bros thus had a business structure that had been characteristic of trading houses all over the world since pre-modern times. Typically, family members who were at the same time partners of the firm were sent to overseas emporiums to supervise the winding-up of transactions. Family relations, in other words, were used as a protection against opportunistic behaviour – an eternal hazard in long-distance trade.[20]

Due to the successful development of their dealings, Volkart soon founded additional branches in Cochin and Colombo (both in 1857), and in Karachi (in 1861). After the 1860s, Indian raw cotton was Volkart's principal merchandise for many decades and the firm became one of the biggest cotton traders in the world by the turn of the nineteenth century. With the expansion of business, it became clear that the two founders could no longer handle all transactions on their own. A number of employees were hired and several managers of Indian branches became partners after the late 1850s. Their partnership, however, was confined to a share of net profits. They held only nominal shares and had little influence on strategic decisions.[21] After Johann Georg Volkart died at the age of 36 in 1861, Salomon Volkart was in sole charge of the company until his son Georg Gottfried became a partner in 1875. In the same year, Theodor Reinhart joined the firm as an employee after having completed his apprenticeship with Geilinger & Blum, the trading firm of his father. In 1876, Theodor Reinhart married Lilly Volkart, the daughter of Salomon Volkart, and became a partner three years later.[22] In 1912, Georg Gottfried Volkart retired as a partner. Since Johann Georg Volkart had died childless; and since the sons of Georg Gottfried Volkart had died at an early age, none of the further partners bore the name of the firm's founders. The company was, from then on, owned entirely by members of the Reinhart family.[23]

At this time, the firm had become one of the biggest merchant houses in South Asia. Volkart had achieved a leading position, particularly in the export of Indian raw cotton. In the late 1880s, Volkart exported up to 100,000 bales of cotton annually, which equated to 5–10% of all Indian cotton exports to Europe. Hence, Volkart had become the third largest cotton exporting firm established in Bombay behind the Greco-British firm Ralli Bros and the British merchant house Gaddum Bythell & Co.[24] In the early twentieth century, Volkart was able to extend its market share. With a turnover of 350,000 bales, the firm became the biggest exporter of Indian cotton to Europe in the early 1920s.[25] Volkart was able to achieve this position not least due to the fact that Indian cotton found a particularly good market on the European continent and Volkart was one of very few continental

European merchant houses established in South Asia. The expansion of the firm's business between the 1850s and the 1920s led to the foundation of four additional branches in India, together with one in Ceylon and London, as well as branches in Japan and China (see Figure 1).

This development was quite characteristic of the development of global trade following the second part of the nineteenth century. Small and middle-scale merchant houses with a wide range of products could no longer meet the requirements of industrial manufacturers. Raw materials such as cotton, silk, grain and coffee were from then on imported by specialist trading houses that had buying agencies in the production areas as well as warehouses and selling offices in the industrial districts. Furthermore, the establishment of telegraphic communication led to a radical change in business practices. Exports could no longer be carried out on consignment since the acceleration of communications allowed purchasers to compare the offers of different merchant houses. This had far-reaching consequences. Merchant houses had to begin trading on their own account, which meant that purchasers no longer had to grant advances, instead only paying at the moment their merchandise arrived in Europe. To counter the strain on liquidity, traders had to rely on credits from European merchant banks.[26] In order to insure their transactions against price fluctuations, they began to hedge their transactions at European cotton exchanges.[27] This development forced exporters to reach economies of scale and pushed smaller firms out of the market.

We can then find a similar transition with long-distance traders to that described by Alfred Chandler and Jürgen Kocka for production firms.[28] Yet, in production enterprises, ownership capitalism lost ground since family networks were unable to provide the vast funds that had become necessary for the establishment of large factories. This did not

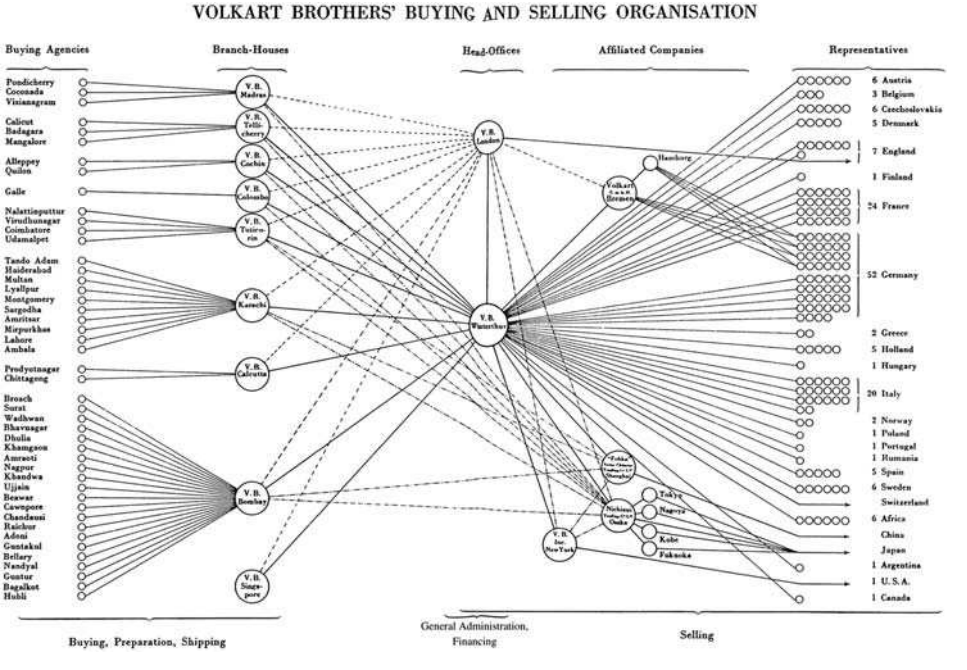

Figure 1. Buying and selling organisation of Volkart Bros in the 1920s. *Source*: *V.B. News* 3 (1921): 10 ff.

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happen in the mercantile sector, as trading firms were less in need of long-term investment. In fact, the demand for credit had increased steadily due to the rising turnovers after the 1870s. Trading firms, though, were not dependent on raising capital by issuing shares but could finance their vast turnovers through short-term bank loans and by giving their stock in mortgage.[29]

Parallel to the rise of a professional management in industrial firms, the managers of internationally operating trading firms became increasingly important due to the growing complexity of commercial transactions. These involved not only an intimate knowledge of products and markets, but also profound skills in finance, insurance and operations at commodity exchanges. Therefore, the company owners had to rely more and more on their managers, who as a consequence came to occupy key positions in the trading houses. The success of Volkart's cotton business, for instance, resulted not least from the skills of Ernst Müller-Renner, who had become the head of its cotton division in 1895.[30] His distinguished position is made clear by the fact that he was the only manager portrayed in the firm's 75th anniversary book, thus being symbolically on a par with the firm's partners.[31] His relationship with the company owners exceeded the sphere of business, since Georg Reinhart, partner with Volkart since 1904, was also the godfather of Müller-Renner's daughter.[32]

The head managers, together with the firm's partners, became members of the directorate after the turn of the century. The final say regarding strategic decisions, however, was with the Partner's Conference, which was held weekly to discuss matters that exceeded the competences of the directorate.[33] Thus, after the late nineteenth century Volkart had ceased to be a classic family firm where business was mostly conducted by members of the owner's family. Instead, the firm had developed a corporate form described by Chandler as 'entrepreneurial enterprise', in which business structure had become a hybrid form of family business and managerial coordination.[34] Such an organisational form was quite characteristic of modern trading firms, as Geoffrey Jones has noted with regard to British merchant houses. Its mixture of centralist decision-making within the trader's head office or partnership and an experienced management, engaged for many years with the firm, was so efficient and robust that it survived well into the late twentieth century.[35]

The fact that the firm was controlled by members of the same family for many decades did not, however, mean that there was constant harmony between the partners. There was, for instance, a constant controversy between Theodor Reinhart and his brother-in-law Georg Gottfried Volkart, which nearly led to the end of the partnership and the liquidation of the firm.[36] Theodor Reinhart's sons, who ran the firm after World War I, also regularly quarrelled over strategic decisions. Georg Reinhart acknowledged that he and his brother had not always lived up to the maxim of family business 'to deal with one another in close friendship and with kindness',[37] and he deplored the disputes that had often 'destroyed the harmony that would have been desirable between brothers and partners'.[38] Despite the frequent conflict, however, Georg Reinhart advocated the convention that only family members could become partners by arguing that 'in the case of dissent, blood ties are a safeguard against public dispute.'[39] An important advantage of the partnership confined to family members was, in his eyes, that the continuity of the firm could be guaranteed even in times of crisis: 'Even in the case of momentary differences … the consideration for the honour of the common family name is a dense sealant that unites the partners in difficult periods. With outsiders, in contrast, there is always the danger that they will conduct acts for the sake of a personal or momentary advantage respectively, that we who have been connected to the firm for many generations would not commit'.[40]

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Family tradition and the quest for reliability

The fact that Volkart was a family firm also influenced the company's self-portrayal, since reliability and continuity were decisive assets in global trade. Not least, the fact that the partners were liable with their private capital inspired confidence among customers and suppliers. By emphasising the shared origin of firm and family, this narrative characterised each generation as the consequence of their ancestors and therein concealed the ambivalences and setbacks of the company's past.[41] The venerable tradition of Volkart, however, was not only used in external communication; it also shaped the conduct of business. An article published in a company newsletter in 1942 claimed under the heading WHAT WE STAND FOR: 'The truth stands up. [. . .] Firms like Volkart Brothers with an honourable family tradition of several generations, do not stoop to shady transactions or treat a contract obligation as if it were a scrap of paper. They feel that they have an ideal to live up to – and they prosper, because their clients instinctively respect them'.[42] This refers to a characteristic trait of global commodity trade. Although – or rather because – it was highly competitive, features like honesty and fairness towards other merchants were crucial business principles. This resulted partly from the fact that the number of market participants was rather small and opportunistic behaviour was expected to become common knowledge immediately. Only a handful of internationally operating traders controlled the export of particular commodities such as cotton, coffee or grain from certain parts of the world after the late nineteenth century.[43] Purchasers of these commodities were a limited number of industrial firms. In addition, there were merchant's banks, insurance companies and shipping agencies that provided capital and services for global trade. Business connections between all these firms often existed for many decades, and the respective principals and employees usually knew each other personally. Peter Reinhart claimed in a speech on the occasion of the 100-year anniversary of Volkart that the firm had not only managed 'to establish enjoyable business relations with our customers and suppliers, with our agents all over the world and even with our competitors, but in many cases these relations turned into real friendships'; he called the good name of the firm 'without hesitation our biggest asset', even though it did not even appear on the balance sheet.[44]

Volkart was certainly not the only firm that considered the requirement of their customers; after all, reliability and the development of an established clientele were crucial assets of trading companies. Ralli Bros, Volkart's main competitor in the Indian cotton trade for many decades and also a family-controlled firm until the end of the twentieth century, maintained in an anniversary publication of 1951: 'our fulfilment of moral obligation under a contract is more important than the letter of contract'.[45] However, such a pronounced customer orientation was far from being self-evident. It seems, for instance, that such a business principle was much more common in Europe than in the US. After having merged their American subsidiary with an American cotton trading firm in 1942, Volkart had tedious disputes over the handling of customer requests with the management of the newly acquired company.[46] Several British merchant houses that founded agencies in the US in the 1920s also became aware of the fact that their rather cautious way of doing business was not compatible with the much more dynamic business practices in the US.[47] Presumably the reason for these difficulties was a different conception of what an enterprise had to be. In Europe, a business company was not a mere economic organisation, but also a social entity. The significance of the relationship between the owners' family and company and the efforts taken to embed business into the

social environment seemed to have been much more pronounced in Europe than in the US.[48]

Volkart, in any case, used to cultivate their business acquaintances for many decades. The fact that many of the companies concerned were family owned had a stabilising function for these connections. In the mid-1920s, the firm was represented in 18 European countries by more than 150 locally established merchant houses.[49] The extent to which family traditions consolidated these business relations and blurred the emotional boundaries between firm and agent becomes obvious when examining the liaison between Volkart and the French merchant house Valette. In 1923, the in-house magazine of Volkart published an obituary on Edouard Valette, who had represented the Swiss firm in Marseille for nearly three decades:

> [D]uring our long and intimate association with him we have come to look upon him almost as belonging to us. On one of Mr Werner Reinhart's last visits to Marseille Mr Valette led him into the office saying in a simple and touching manner: 'This is Volkart's office'. These few words express more than anything else his great devotion and affection for our firm, and the development of our business in Marseilles was in a large measure due to his spirit and to his fostering care and his unwearing energy.[50]

The close relationship between the two firms was the reason that Volkart provided Gabriel Valette, a descendant of Edouard Valette, aid of 3000 Swiss francs in 1947 since the French merchant was faced with ruin after the end of World War II.[51] This aid was not explicitly justified with economic reasoning in the executive board of Volkart. Rather, it seemed understood that such a company as Volkart would not let down a business associate that needed help in difficult times. This confirms that, in the thinking of these merchants, there was no strict division between private and economic spheres. Rather, these domains were considered to be deeply interlinked. The support for Gabriel Valette, however, was definitely beneficial to Volkart's business, since it allowed Valette to regain ground. As a consequence, he was able to continue to act as an agent of Volkart in Marseille.[52]

Yet, family connections not only served to stabilise business relations in Europe: a similar correlation between family commitments and economic rationality can be found in India, where European merchant houses had to rely on cooperation with indigenous brokers and bankers (*shroffs*) in order to establish relations with local dealers and to finance their upcountry operations. Generally, European merchants lacked the necessary social capital to act independently on the subcontinent, and constantly ran the risk of being cheated by customers and suppliers. The Swiss buying agent of Volkart in Lyallpur even claimed in 1918, when interviewed by the Indian Cotton Committee: 'I find that, in matters of trade, the Punjab is in a state little short of anarchy, so much so that, the one element so very important and so highly esteemed in European business life, trust, is entirely out of place here'.[53] This confidence gap could be closed by cooperation with Indian middlemen, who were described in the in-house magazine *V.B. News* as merchants of 'a good financial standing … a shrewd business sense, … good knowledge of the articles and the market conditions and, last but not least, sound judgement of character and ability to deal with all sorts and conditions of people'. These capacities, 'coupled with absolute integrity secure [them] the confidence and esteem of the dealers and his principles alike'.[54] The Indian intermediaries hence held the same qualities that were considered as characteristics of an honest merchant in Europe as well.[55]

In some cases, Volkart worked for several decades with the same Indian merchant house which took over the *shroffage* or the brokerage for a certain district.[56] For the stabilisation of these relations, family played an important role since, according to *V.B.*

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News in 1922, it was quite common that the position of broker was 'handed down from father to son as a sort of inherited tradition'. Moreover, 'the fact that generations of the same family have been acting for us in this capacity bears testimony to the good spirit prevailing between the firm and the brokers.'[57] Be that as it may, the fact that several generations of the same merchant's family acted as brokers for the firm, and that the position of a *shroff* was often passed down within the same family, serve as further examples of how Volkart sought to embed its transactions within the business culture of India, where a family firm's reputation was a core factor in the public identity of individual family members.[58] Every economic decision was made with consideration of its effects on the family as a social entity.[59] The Indian merchant's household thus had a double function. Similar to European merchant houses, it was both a profit-maximising enterprise and a site where social relations based on honour and respectability came together as a means of supporting the family's business success. By employing the members of certain merchant families as brokers or *shroffs* over many decades, Volkart Bros. effectively used this mechanism to create a network of trust and to stabilise cooperation with its Indian middlemen.

Likewise, when Volkart began to expand its operations to Latin America in the 1930s, it did so by cooperating with locally established merchant houses such as Prado Chaves in Brazil, Peter Schoenfeld and Juan Waelti in Guatemala, and Café Capris in Costa Rica. All these merchant firms were family owned. What from a macro-economic perspective appears as a global commodity market on which thousands of tons of raw cotton and coffee are exchanged annually turns out to be a dense network of family firms around the globe when examined at the micro level. This cooperation was characterised by a shared mercantile culture in which the good name of the merchant's family was a crucial and universally valid feature. Regarding the stability of family connections in the global economy, Harold James has therefore claimed that 'DNA chains are the real chains that bind the capitalist economy': 'The information gains achieved over time by expanding networks of relationships provided a social capital that complemented financial capital, contributing to efficiency by reducing transaction costs'.[60]

Conditions of employment and the concept of the corporate family

Yet, the form of family business was not only suited to stabilising inter-organisational relations. It also helped to minimise intra-organisational transaction costs and was thus a means of dealing with the principal agent problem. The prevention of opportunistic behaviour was a particular challenge for trading firms, on the one hand because the managers in the far-away overseas agencies regularly dealt with huge sums and on the other hand because procedures such as selection of commodities, price negotiations and establishment of customer relations could not be turned into routine work.[61] Besides a strict monitoring – the managers regularly had to submit statistics and financial statements to Winterthur and the agencies were regularly visited by inspectors and partners[62] – the principals of Volkart aimed to reduce opportunistic behaviour by establishing a strong corporate culture based on mutual trust. A crucial factor for this was the long-lasting socialisation of staff.[63] Until the 1950s, engagements were always limited to a sequence of five- and four-year contracts.[64] Yet, staff members could count on their contracts being renewed as long as they performed their task adequately. Many of them stayed with Volkart for their whole professional life. Such long-term employment was also common at other trading companies not least since the employees' knowledge of products, business

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practices and local conditions were the cultural capital of these firms and were indispensable for their success.[65]

In order to secure the loyalty of staff, it was crucial that the firm provided good conditions of employment. Georg Reinhart, for instance, claimed that Volkart owed its reputation 'not least to the human and liberal treatment of its employees'.[66] These were not empty words. When Volkart suffered serious losses due to the crisis of global trade after the mid-1920s, the firm continued to pay a bonus to its employees, even though bonuses were designed to be paid only in the case that the firm was profitable. Volkart could disburse them only because the partners were ready to denote several hundred thousand Swiss francs of their private means in favour of their employees' bonuses. Instead of expecting gratitude, however, the partners apologised in a circular that they were not able to pay the same incentives as they had done in the boom years due to the poor course of business. They expressed the wish that 'each of our employees shall feel like a business associate, participating in the operating profit as well as in the troubles and concerns and in the constructive labour. We desire a real community of fate with our staff'.[67] In an internal memo for the attention of his brothers, written in 1929, Georg Reinhart referred explicitly to the difference between partners that were in charge of their own company and shareholders that had merely invested their capital and had, besides that, no relation to the firm and its employees: 'In our firm, the "financiers" consider their employees to be their *collaborators* and they wish to be considered also as *collaborators* by them. This mutual collaboration, in my opinion, can be the base for mutual trust and solidarity – even in hard times – as it cannot be expected in a stock corporation to the same degree'.[68] It is striking to note that the partners in this connection did not rationalise their generosity with economic arguments. Rather, it seems, they followed an unwritten rule of how to treat their employees in a family-owned firm like Volkart.

The firm's corporate culture was thus fundamentally shaped by being family owned. As a consequence, the metaphor of the corporate family was prevalent when partners and employees described their relationship with the firm. After the death of Werner Reinhart in August 1951, a senior executive expressed his condolences to the family of the deceased at the funeral service. 'Yet', he claimed, 'there is a second family that has been affected in the same genuine mourning. I am thinking about the large community of Volkart Bros, beginning with the young apprentice, the trainee ascending to the employee, the head of department and general manager including the staff employed in the overseas branches all over the world and the numerous representatives abroad, up to the closest collaborators of the deceased principal'.[69] This quote indicates that the employees' sense of belonging was not confined to the firm alone, but also referred to the principals who embodied the company. The fact that the company was associated with a distinct group of partners offered the employees a guarantee of continuity and promoted their relationship with the firm.[70] The partners of Volkart were certainly aware of this benefit. In 1923, Georg Reinhart claimed in an internal exposé that 'the fact that we are a pure family business ... provides our employees with the secure feeling that the capital of the firm will stay together and that they are not working for partners who will withdraw their capital one day when they believe they have made enough profit.'[71] This quote illustrates that the concept of the corporate family went beyond strategic thinking and the dealing with the principal agent problem. It was a cultural trait that combined private and economic rationality.

To be sure, Volkart was by no means a special case in establishing such a corporate culture. The same held true for many manufacturing companies in the nineteenth and twentieth centuries.[72] However, it is remarkable that a globally operating enterprise like Volkart was successful in maintaining such a symbolic order over many decades.

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An important reason for this was certainly the fact that Volkart employed only a very small number of European staff – in 1924, they had some 150 Europeans on their salary list – who knew the partners personally. They were basically the inner circle of the corporate family. In contrast, over 2200 non-European clerks and some 2800 day labourers were working for Volkart in the mid-1920s.[73] These non-European staff-members, most of whom were employed on the Indian subcontinent, were the outer circle of the corporate family, although many of them never had met the partners in person.

It is hard to tell from the sources how non-European employees assessed the working conditions. In any case, Volkart seems to have made quite an effort to satisfy their demands, which is why Volkart had no labour disputes in India throughout the colonial period.[74] It is also interesting that Indian staff used the metaphor of the corporate family to encode their relationship with the company when addressing the firm's owners, probably not least in order to remind the partners of their duty to provide patronage. This becomes apparent in a welcome address by the Indian staff of the Tuticorin branch on the occasion of Georg Reinhart's visit in 1927:

> The one reason, among so many, which stands prominently forward to account for the Firm's splendid success in business in all previous years is, we dare say, the mutual trust and confidence between the Firm and its Employees, and the good and honourable treatment meted out to the latter by the former. Honoured Sir, it may not be too much to expect you to regard us, in a metaphorical sense of course, as your dutiful children, fully meriting the confidence which you repose in us, whose one object, as far as our relationship with the Firm is concerned, is the perennial prosperity of the Firm, which, on its part, is the basis of our well-being.[75]

And in the 1980s, a former Indian employee described his feelings toward the firm as follows: 'I have thought of the company as my Mother … and have given her the devotion one would accord to one's mother. I have also received her love and blessings in full measure'.[76]

Conversion into a stock corporation in the 1960s

The model of the family-controlled partnership, however, reached its limit with the increasing growth and interweaving of the company. The interwar years saw a quick succession of new subsidiary companies and branch offices in Osaka (1919), Bremen (1920), New York (1920), Shanghai (1921), and Singapore (1924). Through its entry into the North American and East Asian cotton markets in particular, Volkart became a truly globally operating trading company. Several competitors such as the American cotton trader Anderson Clayton (1920) or the British merchant houses James Finlay (1924) and Ralli Bros (1931) had incorporated in the interwar years in order to safeguard the companies against the effects of retirement or death of a partner or to facilitate operations over a wider geographical area.[77] Yet, the conversion into a stock corporation found no support from the majority of Volkart's partners. While Werner Reinhard had tinkered with the idea of a change of corporate form from the early 1920s on, his brother Georg insisted on getting on with the form of partnership, since in his eyes a corporation was a 'cumbrous and impersonal apparatus'.[78]

Although business remained successful (with the obvious exception of the years of global economic crisis between the late 1920s and the mid-1930s), it is interesting that the influence of the management increased with the expansion of the firm's activities. Repeatedly, the managers of Indian agencies tried to take advantage of industrialisation on the Indian subcontinent and advocated a diversification strategy into the industrial sector. These proposals, however, were dismissed by the partners, who argued that the firm lacked

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the know-how to manage such industrial enterprises successfully.[79] While this reaction might be seen as a typical refusal of a family firm to diversify into new business areas, in other cases the management was more successful in realigning the firm's business. It was mainly the persistence of the managers of the Bremen subsidiary that convinced the partners to establish themselves in the cotton export trade from Brazil and the United States in the 1920s, a geographical diversification that turned out to be very fruitful after the end of the colonial period.[80]

After World War II, the question of whether changing the corporate form was advisable came up again. Peter Reinhart, the son of Georg Reinhart, challenged the prevailing notion within the firm that the form of partnership 'had substantial advantages for our line of business and that the identity of ownership and management gave us increased flexibility and willingness to carry a risk without involving significant handicaps'. He claimed that the 'fact that we risk primarily our own capital by taking decisions tends to lead to … taking risks we would reject if it was about other people's money'.[81] Before the partners could come to an agreement in this matter, historical developments in South Asia confronted them with a completely new situation. After the end of colonial rule, Volkart was compelled to convert its branches in South Asia into stock companies and to take on local capital by the governments of the newly independent states of India, Pakistan and Ceylon. As a consequence, the firm began to intensify its activities in the Western hemisphere by developing its cotton organisation in the US and by opening up a new company in Mexico for the export of raw cotton. In addition, by cooperating with Latin American merchant houses, all of them family controlled as well, Volkart established a coffee export organisation in Brazil and acquired shares in coffee exporting firms in Guatemala and Costa Rica.

The previous partnership was not suited to controlling this ever more complex concern. For this reason, Volkart Bros Ltd was founded in 1964 to pursue the assignments of the Winterthur head office; soon after, Volkart Bros Holding Ltd and Inpaco Ltd were founded to control the subsidiaries and minority shareholdings. The shares of these new companies, however, were not traded in public markets, but remained in possession of the Reinhart family.[82] By doing so Volkart had reorganised its corporate structure in a way similar to that of other trading firms in the first decades of the twentieth century. In the case of Swiss merchant houses, an enquiry revealed in the mid-1950s that most trading firms had converted their corporate form into a stock corporation whose shares had been in the possession of a small number of shareholders during the last decades. These firms differed with regards to their corporate culture from manufacturing enterprises, as the author of the survey put forward: 'According to the personal characteristics of merchant trading, personal controls outweigh institutional control, which is why we find no "managerial society" in such a manner as in other enterprises of a comparable size'.[83]

The restructuring of the corporate structure provided two advantages. On the one hand, the holding was the corporate form specific to most double taxation agreements. On the other hand, the new establishment of a stock corporation prevented the danger that the house of Volkart could lose large parts of its capital in the case of retirement or death of a partner. With the stock corporation, the heirs of a deceased partner would inherit the shares; and these could easily be sold to the remaining owners of the firm.[84] In 1973, a further change took place. For the first time managers from outside the Reinhart family became members on the executive board of the firm.[85] As a matter of fact, the top management had been involved in all important decisions before. Yet, their co-determination was only formalised in 1973. Due to the lack of sources, it is not possible to provide evidence of the effects of the establishment of a stock corporation and the increasing influence of the management on the

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firm's operations. There is no indication, however, that Volkart would have fundamentally altered its business strategies after the mid-1960s.

In 1981 the first real conflict over control of the firm took place when Andreas Reinhart, the son of Peter Reinhart, demanded ultimate leadership of the company. The dispute could only be settled three years later, when Andreas Reinhart took over the majority of shares.[86] The new owner initiated a diversification of the business into investment banking and financial services and a massive expansion of the firm's coffee operations, making Volkart number two in the global trade of green coffee. Yet, the results of the coffee division were meagre. Bad harvests and cut-throat competition made business ever more speculative. After several heavy losses, Reinhart sold the coffee division in 1989.[87] Ten years later, he ceased the activities in the financial sector and sold the cotton division. After more than a century, the core of Volkart's existence as a trading company thus came to an end.

However, this cannot be seen as evidence that family businesses or partnership-based firms are no longer competitive in global commodity trade. Volcafe, the former coffee division of Volkart, remained one of the largest green coffee traders in the world and is today a part of the British merchant house ED & F Man, which is still organised in the form of partnership today.[88] And Volkart's cotton division continued business partly in the firm Volcot, established by former managers of Volkart, and partly by merging into the Winterthur firm Paul Reinhart, a family owned and controlled company since its foundation in 1788 and today one of the leading worldwide cotton merchant houses.[89]

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Conclusion

As has been demonstrated by the example of Volkart, family business had been a customary corporate form in the mercantile sector well into the twentieth century. This certainly challenges sequential stage models as proposed, most notably, by Alfred Chandler, wherein family ownership is but an intermediate stage in a firm's history before it is turned into a managerial stock corporation. Although the management gained an ever more important place in global trading firms, family ownership and control is even today ubiquitous in the mercantile sector. The fact that family firms were more interested in sustaining long-term business relationships instead of making profits on short notice reduced transaction costs, since it brought a certain stabilisation in this volatile business area. However, it is interesting to note that within the executive board, decisions that were disadvantageous to short-term gains were seldom rationalised with economic reasoning. Rather, it was a tacit agreement that a family firm like Volkart would stick to its principles at any cost. This can certainly provide an indication that decision-making in such family-owned merchant houses featured a high degree of path dependency.

Additionally, family metaphors were omnipresent in the corporate culture and the self-perception of both principals and staff. The concept of the corporate family can be construed as a cultural trait to which all parties involved referred in order to explain their relationship to the firm. Volkart was a family firm, not only since it was family owned, but also since the concept of the corporate family was rendered meaningful and guided the actions of its members. This indicates that the role of the family in the corporate culture of such firms was much more than a strategic feature that the principals were using at their liking in order to reduce transaction costs. It was not something the firm possessed, but rather the essence of the company. This may lead us to reconsider the relationship between economic and private spheres, which can often be much less clearly distinguishable than economic and business historians so far seem to have assumed.

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Notes

1. Reinhart, *Gedenkschrift*, 9.
2. V[olkart] A[rchives, Winterthur], Dossier 2: Die Teilhaber II – August Julius Ferdinand Ammann, Partner 1880–1894. For the history of the firm, see Rambousek, Vogt and Volkart, *Volkart*; Dejung, "Bridges to the East," 2011.
3. Chandler, *Visible Hand; Scale and Scope*.
4. See Jones and Rose, "Family Capitalism"; Colli, *History of Family Business*; James, *Family Capitalism*; Landes, *Dynasties*; Lubinski, *Familienunternehmen*.
5. Casson, "Family Firm," 204.
6. James, *Family Capitalism*, 5f.
7. Jones, *Merchants to Multinationals*.
8. Sluyterman & Winkelman, "Dutch Family Firm," 176.
9. Tagiuri and Davis, "Bivalent Attributes," 1996.
10. Weber, *Die protestantische Ethik*. For a critique of economic theory from a cultural historical perspective, see Emmisson, "'The Economy,'"; Carrier, *Meanings of the Market*.
11. Yanagisako, *Producing Culture and Capital*, 5 ff.
12. Lubinski, *Familienunternehmen*.
13. Yanagisako, *Producing Culture and Capital*, 21.
14. Granovetter, "Economic Action," 1985.
15. Weber, *Protestantische Ethik*.
16. Colli, *History of Family Business*, 45; Rühle, "Ein neuer 'traditioneller' Kapitalismus?"
17. Bayly, *Rulers, Townsmen and Bazaars*; Goody, *East in the West*.
18. Dejung, "Bridges to the East."
19. Anderegg, *Chronicle*, 38f.
20. Killick, "Cotton Operations," 169 ff.; Markovits, *Global World*; Gorissen, "Preis des Vertrauens."
21. Anderegg, *Chronicle*, 65–85; VA, Doss. 1, B) Die Teilhaber.
22. Anderegg, *Chronicle*, 141.
23. Rambousek, Vogt and Volkart, *Volkart*, 80.
24. Anderegg, *Chronicle*, 150, 174 ff., 756 ff.
25. *V.B. News* 9 (December 1923): 14–16.
26. Ammann, "Reminiscences," 9 ff.; Vicziany, "Bombay Merchants," 167–172, 181.
27. Garside, *Cotton Goes to Market*, 208–237.
28. Chandler, *Scale and Scope*, 1990; Kocka, "Familie, Unternehmer und Kapitalismus."
29. VA, Weisse Schachtel, Unser Finanzsystem. (*c*. 1925), 4, 7–10; V.B. Finanzen, Auszahlungs-Systeme, December 1926, 1–7; V.B. Finanzen. Deckung der Verbindlichkeiten. March 1927, 3, 9, 13–17.
30. V. B. News 14 (June 1926): 31.
31. Reinhart, *Gedenkschrift*, 23.
32. Reinhart, *Aus meinem Leben*, 47.
33. VA, Partners' Conference (4 June 1946–31 August 1956): Konferenz vom 4. Juni 1946.
34. Chandler, *Visible Hand*, 8 ff.
35. Jones, *Merchants to Multinationals*, 195 ff.
36. Reinhart, *Aus meinem Leben*, 76 ff.
37. VA, Dossier 62: ex GR persönliches Archiv II, The Family Code of the House of Mitsui, Japan, aufgestellt im siebzehnten Jahrhundert und mein Kommentar dazu vom 10./11. November 1939, 2.
38. VA, Dossier 63: ex GR persönliches Archiv III, Mappe: Aufgabe des Rubbergeschäftes und Liquidation von Singapore 1929, GR, Memorandum I, 23. Juli 1929, 18.
39. VA, Dossier 62: ex GR persönliches Archiv II, The Family Code of the House of Mitsui, Japan, aufgestellt im siebzehnten Jahrhundert und mein Kommentar dazu vom 10./11. November 1939, 3.
40. VA, Dossier 62: ex GR persönliches Archiv II, Geschäftliches Testament mit Beilagen 1921–1925, GR, Geschäftliches Testament, 22 April 1921.
41. Lubinski, *Familienunternehmen*, 292.
42. VA, Dossier 12: Tuticorin / Madras, 9. *V.B. News* 1, no. 2 (October 1942), issued by Madras in 1942–43.

43. In 1922–23, for instance, nearly half of all Indian cotton exported to Europe was shipped by either Volkart or Ralli, the turnover of these two firms being nearly equal (*V.B. News* 9 [December 1923]: 16). And in the early 1990s, about 40% of all green coffee traded globally was shipped by only five trading firms (Talbot, *Grounds for Agreement*, 105).
44. Reinhart, "Rede zur Hundertjahrfeier," 14. For the economic significance of the company's name, see Derix, "Die Knappheit der Vermögenden."
45. Ralli Brothers, *Ralli Brothers Limited*, 9.
46. VA, Dossier 44, VBH Guidelines 1970–1983: Peter Reinhart, "Cotton and Other Commodity Operations and Discretions," 21 May 1970.
47. Jones, *Merchants to Multinationals*, 216.
48. Colli, *History of Family Business*, 41 ff.
49. Rambousek, Vogt and Volkart, *Volkart*, 81.
50. *V.B. News* 9 (December 1923): 22.
51. VA, Konferenz-Protokolle 4. Juli 1947 – 28. Juni 1949: Konferenz vom 6. Oktober 1947.
52. Sondersammlungen der Studienbibliothek Winterthur, Handschriftenabteilung, Nachlass Georg Reinhart, Ms GR 32/102: Gabriel Valette, Marseille, an Georg Reinhart, Winterthur, 20. Dezember 1951.
53. O Haefliger, Agent, Messrs. Volkart Bros., Lyallpur (12. and 13.1.18), in: Government of India, Indian Cotton Committee, *Commercial*, 79.
54. *V.B. News* 4 (March 1922): 17.
55. Dejung, "Bridges to the East."
56. VA, Doss. 26: Finance/Exchange 1887–1977, 3. Inland Financing – Shroffage Agreements: Karachi to Winterthur, 23 August 1928; VA, Doss. 9: Tellicherry, 2. Table of Events.
57. *V.B. News* 4 (March 1922): 17.
58. Dutta, *Family Business in India*; Colli and Rose, "Family Firms," 351.
59. Bayly, *Rulers, Townsmen and Bazaars*, 239, 375–381.
60. James, *Family Capitalism*, 2, 8.
61. Jones, *Merchants to Multinationals*, 215.
62. VA, Dossier 18: Winterthur I, 2 Functions of the HO (Winterthur); Anderegg, *Chronicle*, 173.
63. See Nieberding, "Unternehmerische Sinnkonstruktion."
64. VA, Dossier 25: I/P/C Terms of European Staff: Circular to all Employees on Home Agreement, Winterthur, 15. Juni 1954.
65. Jones, *Merchants to Multinationals*, 213–215.
66. VA, Dossier 62: ex GR persönliches Archiv II, The Family Code of the House of Mitsui, Japan, aufgestellt im siebzehnten Jahrhundert und mein Kommentar dazu vom 10./11. November 1939, 10f.
67. VA, Dossier 62: ex GR persönliches Archiv II, Zur Frage Tantièmen vs. Bonus 1917–1933: Rundschreiben an unsere Mitarbeiter, Winterthur, 23. Dezember 1926, streng vertraulich.
68. VA, Dossier 62: ex GR persönliches Archiv II, Zur Frage Tantièmen vs. Bonus 1917–1933: Georg Reinhart, Zu Herrn Häfligers Exposé über "Bonus versus Beteiligung, 4. März 1929.
69. Wachter, "Nachruf," 13.
70. James, *Family Capitalism*, 5 ff.
71. VA, Dossier 62: ex GR persönliches Archiv II, Zur Frage Tantièmen vs. Bonus 1917–1933: Zur Frage der Gewinnbeteiligung von Managers und Angestellten. Abschrift eines von Herrn Georg Reinhart am 8. November 1923 verfassten Exposés, 11.
72. Berghoff, "Unternehmenskultur und Herrschaftstechnik."
73. VA, Dossier 64: Geschäftsordnung 1915/1921 mit Nachträgen bis 1940 / Upcountry Bookkeeping Instructions 1912–1926 / Upcountry Instructions 1952: Geschäfts-Ordnung, 15.2.1925.
74. VA, Dossier 24: I/P/C Terms of Local Staff, I. general notes on staff terms; IV. Branches: General staff terms/Unions, 1. Bombay: Winterthur an alle Häuser, 11.3.1920.
75. VA, Dossier 2: Die Teilhaber II, Georg Reinhart: Welcome address of the Indian staff of Volkart Bros. in Tuticorin presented to Georg Reinhart, 19-4-1927.
76. VA, Dossier 24: I/P/C Terms of Local Staff, III. short biogr. notes on some Indian & Pak. Employees: "The End of an Era", article without source [probably from the in-house magazine *"We" of Voltas*, about January 1980].
77. Killick, "Specialized and General Trading Firms," 261; Jones, *Merchants to Multinationals*, 96.

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78. VA, Dossier 62: ex GR persönliches Archiv II, Geschäftliches Testament mit Beilagen 1921–1925, GR, Geschäftliches Testament, 22 April 1921.
79. VA, Dossier 8: Karachi, 18. Miscellaneous correspondence: Winterthur an Karachi, 23. Juli 1930.
80. VA, Dossier 13: London/Liverpool (VB + Woods&Thorburn) / Bremen, Bremen (incl. Hamburg office), 3. Correspondence: Winterthur an Bremen, 9. Juni 1922; 4. Note on Volkart G.m.b.H. Bremen 1921–1958 by P.R.: Notiz Volkart G.m.b.H. von Peter Reinhart, 19. Mai 1958.
81. VA, Dossier 20: VB Organisation 1952/53 – Peter Reinhart, Ueberlegungen zur Frage der Gesellschaftsform, 29.4.52.
82. VA, Dossier 18: Winterthur I, 1 Table of Events: Bekanntmachung vom Oktober 1964, Winterthur; Rambousek, Vogt and Volkart, *Volkart*, 171.
83. Wirtschaftsarchiv Basel, Handschriften, HS 421: Verband schweizerischer Transit- und Welthandelsfirmen, Basel, F6: Korrespondenz und zwei Entwürfe, betr. die Enquête über den Transithandel, durchgeführt von Prof. Dr. Gsell an der Handelshochschule in St. Gallen, 1953–1958: Der schweizerische Transithandel. Ergebnisse der Enquête 1954, Juni 1955, 2 ff.
84. VA, Konferenz-Protokolle vom 15. Januar 1959–30. März 1965: PR, Zu Protokoll, 9. Januar 1963.
85. Rambousek, Vogt and Volkart, *Volkart*, S. 171.
86. VA, Dossier 45: Betriebsmitteilungen 1965–1986, Volkart Brothers Ltd. Betriebsmitteilungen 1978–1986: Betriebsmitteilung, 27. März 1984; Betriebsmitteilung, 4. November 1985.
87. Schweizerische Handelszeitung, 10. April 1986; Tages-Anzeiger, 9. Mai 1989; Weltwoche, 29. April 1989; Weltwoche, 9. September 1999.
88. See: http://www.edfman.com/.
89. Volcot, however, was liquidated in 2011. For Paul Reinhart, see http://www.reinhart.com/.

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Notes on contributor

Christof Dejung is Senior Lecturer and Researcher (Privatdozent) at the Department of History and Sociology at the University of Konstanz, Germany. Recent publications include "British Wartime Protectionism and Swiss Trading Firms in Asia during the First World War." Past & Present 207 (2010): 181–213, with Andreas Zangger; The Foundations of Worldwide Economic Integration: Power, Institutions, and Global Markets, 1850–1930, edited together with Niels P. Petersson, New York: Cambridge University Press, 2013; Die Fäden des globalen Marktes: Eine Sozial- und Kulturgeschichte des Welthandels am Beispiel der Handelsfirma Gebrüder Volkart 1851–1999. Cologne: Böhlau, 2013.

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